

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
INFRASTRUCTURE STATE REVOLVING FUND PROGRAM (ISRF)**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant: City of Lone	Amount Requested:	\$3,250,000
Name of Project: Wastewater Compliance Project	Requested Financing Term:	30 years
Project Location: City of Lone Wastewater Treatment Plant/West Marlette Street @ Old Stockton Road/lone, CA	Interest Rate:	2.32% ¹
	Tier:	Tier 1
Project Description: The Project consists of the following to bring the City of Lone into compliance with its waste discharge requirements and to accommodate planned growth: installation of pond aeration and mixing equipment; construction and installation of inter-pond transfer piping; installation of an effluent disinfection and pumping system; installation of an irrigation system on 65 acres adjacent to the City's wastewater treatment plant; sludge removal from ponds and the filling of a portion of one pond, if necessary.		
Use of Financing Proceeds: Proceeds will be used for construction, engineering, architectural, CEQA, Construction management and design and the I-Bank origination fee.		
Source of Repayment: Senior Lien on Net System Revenues and Sewer Fund	Form of Financing Agreement: Installment Sale Agreement	
Scoring Criteria: Project Impact Community Economic Need Land Use/Environmental Protection/Housing Element Leverage Readiness TOTAL	Applicant Score 30 10 40 3 10 93	
I-Bank Staff: Steve Grebner	Date of Staff Report: May 10, 2013	
Date of I-Bank Board Meeting: May 21, 2013	Resolution Number: 13-05	
Staff Recommendation: Staff recommends approval of Resolution No. 13-05 authorizing financing to the City of Lone for the Wastewater Compliance Project, subject to conditions contained therein.		

PROJECT DESCRIPTION

The City of Lone (City) requests ISRF Program financing for a portion of its Wastewater Compliance Project (Project). The Project consists of the following elements to bring the City into compliance with waste discharge requirements to accommodate planned growth: installation of pond aeration and mixing equipment; construction and installation of inter-pond transfer piping; installation an effluent disinfection and pumping system; installation of an irrigation system on 65 acres adjacent to the City's wastewater treatment plant (WWTP); sludge removal from ponds and the filling a portion of one pond, if necessary (see Exhibit 1—City and Project Location Maps).

The City has historically operated its WWTP under the Waste Discharge Requirements (WDR) Order No. 95-125 dated May 26, 1995 issued by the Central Valley Regional Water Quality Control Board (RWQCB). On April 11, 2013 the RWQCB adopted WDR Order R5-2013-0022 and rescinded WDR Order No. 95-125. The new WDR requires the City to make upgrades to the WWTP to ensure that discharges from its percolation ponds do not exceed maximum contaminant levels for dissolved iron and manganese.

The WWTP has operated under several Cease and Desist Orders (CDO) issued by the RWQCB. The first CDO R5-2003-0108, issued in 2003 (2003 CDO), required the City to undertake a number of studies and submit a "Report of Waste Discharge" to correct concerns. The second CDO, R5-2011-0019 issued in 2011 (2011 CDO), rescinded the 2003 CDO and imposed flow limits on the WWTP and required the City to construct facility improvements that will effectively stop the mechanisms that result in the mobilization and discharge of iron and manganese which is in violation of State Board Resolution 68-16. Furthermore, the 2011 CDO required the City to either: 1) stop any indirect discharge (seepage) of degraded groundwater to Sutter Creek that is in violation of the Clean Water Act, or 2) obtain a National Pollutant Discharge Elimination System (NPDES) Permit that regulates the indirect discharge of degraded groundwater to Sutter Creek. Both the 2003 CDO and 2011 CDO require compliance by October 2013. In order to allow the City additional time to come into compliance, the RWQCB also issued CDO R5-2013-0023 on April 11, 2013 (2013 CDO). The 2013 CDO rescinded the 2011 CDO and requires compliance by December 2013. The RWQCB has submitted a letter of support for the ISRF Program funding (see Exhibit 2 – RWQCB Letter of Support), and has confirmed that the Project is anticipated to bring the City into compliance with the 2013 CDO.

To comply with the 2013 CDO, the Project is focused on eliminating the conditions causing groundwater degradation thereby reducing any pollution risk to Sutter Creek. The Project consists of the following components:

- Installation of aeration equipment in treatment ponds 1-4, and install aeration and mixing equipment in percolation pond 5;
- Construction of inter-pond transfer piping;
- Installation of effluent disinfection and pumping system equipment;

- Installation of irrigation system on 65 acres of land adjacent to the WWTP (this portion of the Project will be financed by the City); and,
- Sludge removal from ponds 5 and 6; and filling a portion of pond 5, if determined necessary after the rest of the Project components are completed and tested.

The City's hydro-geologic work indicates that the combination of additional treatment equipment and cleaning the anaerobic sludge out of the percolation ponds will stop the mechanisms that mobilize iron and manganese. Additionally, the City has secured the use of 65 acres of land for irrigation purposes through a 30 year recorded wastewater disposal easement agreement (renewed automatically for successive terms) with Greenrock Ranch Lands, property owner, in exchange for the disinfected, treated effluent from the WWTP. Under this agreement, the City will install irrigation equipment on the land to discharge the effluent where it will be used for irrigation of non-food crops (e.g., alfalfa and other crops), with excess effluent being allowed to continue to the percolation ponds. As mentioned above, the portion of the Project related to the installation of irrigation equipment on non-city owned property adjacent to the WWTP will be financed by the City and not by the I-Bank.

The City's application indicates that the Project will provide the necessary wastewater services to support ongoing development pursuant to the City's General Plan (GP), which will include recreational and commercial amenities within the Castle Oaks development. The Project also provides an ongoing availability of sewer service, which supports community revitalization in historic downtown Lone, consistent with the City's recently adopted the 2012 Downtown Master Plan.

The City's 2009 Wastewater Master Plan (WWMP) states that the WWTP is near or at capacity, and unable to accommodate future planned growth, preventing the City from expanding its tax base. With the increased capacity by the use of the aforementioned 65 acres of land, the WWTP will be allowed to continue servicing Amador Regional Sanitation Agency (ARSA) and Mule Creek State Prison (Prison), the City's largest employer (see System Description) and residential development.

The GP estimates that the City population will reach 17,258 by the year 2030, excluding population from the Prison. This projected population growth corresponds roughly to 7,125 single and multi-residential units. Additionally, the GP projects a development of approximately 8.5 million square feet of commercial space, and 10.4 million square feet of industrial space, which businesses are anticipated to provide jobs in the City for the next 17 years and beyond.

In the past 18 years, the City has experienced increased residential development, evidenced by the approval and construction of Castle Oaks Golf subdivision and golf course in the 1990's. The City currently anticipates the completion of an additional 375 dwelling units in the subdivision which, according to the National Association of Home Builders, equates to 3.05 permanent retail jobs per single family dwelling, totaling approximately 1,145 permanent retail jobs at full build out. This projected growth will

increase the wastewater flow to the City's wastewater system as connections are added.

Additionally, the City's application indicates that due to the reductions of prison populations in other areas of the State, the Prison may be selected by the California Department of Corrections and Rehabilitation (CDCR) to expand its capacity by 1,768 beds. The Prison, which has its own secondary effluent treatment facility, discharges approximately 150 acre-feet per year of treated effluent to the City's WWTP, some of which is sent to the City's tertiary treatment facility for additional treatment and turf application for the Castle Oaks Golf Course. The City's sewer system allocation to the Prison to process Prison effluent is critical to the current operation and expansion of the Prison. Further, if the Prison does choose to expand its inmate capacity the new facility will be built on the Prison's existing wastewater spray fields. For this reason, the City submitted a letter of support dated September 12, 2012 for the Project from the CDCR. To accommodate the potential Prison expansion, the City must have available sewer capacity. The City expects that the proposed Prison expansion would create temporary Prison construction jobs, create permanent high paying jobs at the Prison, increase the demand for housing, as well as expand jobs tied to the businesses that provide supplies to the Prison.

PROJECT SOURCES AND USES

The Project funding as follows:

PROJECT SOURCES and USES			
Uses	Sources		
	I-Bank	City of Ione	Total
Construction and contingency	\$2,791,700	\$426,000	\$3,217,700
Engineering/Architectural/Design/ CEQA/Construction Management/Consultant Fees	\$430,675	\$324,000	\$754,675
I-Bank Origination Fee	\$27,625		\$27,625
Total	\$3,250,000	\$750,000	\$4,000,000

The Project will be financed with I-Bank and City funds. The City submitted a copy of Resolution 1895 adopted on March 5, 2013, committing an amount not to exceed \$750,000 to the Project.

ELIGIBILITY CRITERIA

The City and the Project meet all of the statutory and supplemental threshold eligibility criteria.

GENERAL CITY OF IONE INFORMATION

The City incorporated as a General Law City in 1953, is located in Amador County (County) on State Routes 104 and 124, 30 miles southeast of Sacramento and 30 miles northeast of Stockton, in an area that covers approximately 4.8 square miles. As of 2012, the City's population was 7,918.

The City operates under the Council-City Manager form of government. The Council is comprised of four Council Members and a Mayor who are directly elected by the citizens. The Council Members serve four-year staggered terms, and the Mayor and Vice Mayor are elected annually by the City Council. The City Manager handles the day to day operations of the City, and reports to the Mayor and City Council.

Once known as "Bed-Bug" and "Freeze Out," the City was an important supply center on the main road to the Mother Lode and Southern Mines during the California Gold Rush. The City is currently the largest city in the County, is mostly rural with an increasing residential population, and serves as a bedroom community for Sacramento and Stockton.

The City has a major residential development surrounding the Castle Oaks Golf Course which continues to grow. In addition, the Prison is a large employer in the area and has 3,782 prisoners residing in the facility, which account for nearly half of Ione's population. Adjacent to the Prison is the California Department of Forestry and Fire Protection Training Academy (CAL FIRE Academy), which trains staff from all over California, as well as the Preston Youth Correctional Facility (formerly the Preston School of Industry).

The unemployment rate for the City, as of 2012, was 10.7% as compared to the State of California unemployment rate of 11.7%.

The City was subject to two investigations by the Amador Civil Grand Jury (Grand Jury) in 2010-2011 and 2011-2012 (Grand Jury Report), based on complaints from citizens regarding financial mismanagement by the former City Manager and City Council. The Grand Jury Report found that the former City Manager did not possess the proper qualifications to perform the duties required for that position and that she provided the Council with misleading and inaccurate financial, contracting and planning information, resulting in improper decisions and expenditures made by the City Council.

On September 12, 2012, the City fully responded to the Grand Jury, and in its response noted that the City no longer employs the former City Manager, hired a new City Manager, and created a new finance director position and filled it, and affirmed that the two new executives are fully qualified to perform the necessary duties of their positions. The City further responded to the Grand Jury Report and outlined the measures it has taken to address the past deficiencies. In particular, the City has retained a certified public accounting (CPA) firm to assist with ensuring the accuracy of the City's accounting, budget and financial records. The City, with the assistance of the CPA firm, has since made corrections and adjustments to the 2010-2011 audit, and confirmed that for the first time in five years the City has a balance budget for fiscal 2011-2012.

CREDIT ANALYSIS

System Characteristics

System Description. The City owns and operates the sewer system (System), which is composed of two interconnected wastewater treatment and disposal facilities: the WWTP and the Castle Oaks Water Reclamation Plant (COWRP) (collectively, the System and the COWRP are the System). The WWTP, a secondary treatment facility, is located directly south of Sutter Creek, and was originally constructed in 1958 and modified and expanded multiple times. The City's wastewater, as well as the backwash water from the lone water treatment plant, which is owned and operated by the Amador Water Agency (AWA), is treated at the WWTP.

The COWRP, a tertiary treatment facility treats water to Title 22 standards for irrigation of the Castle Oaks Golf Course (Golf Course). COWRP was constructed as part of the development of the Golf Course, and both the Golf Course and COWRP are now owned by the City. COWRP services secondary treated effluent from the Amador Regional Sanitation Authority (ARSA), as well as a portion of the Prison's effluent under an agreement with the City. The effluent from ARSA and the Prison is sent to the COWRP for tertiary treatment and disposed of by irrigating the Golf Course. During the rainy season, the effluent is sent to the WWTP.

The System includes previously mentioned treatment plants, equipment, pumps, 24 miles of various size piping, and seven wastewater ponds. Ponds (1-4) are aerated wastewater treatment ponds, and the remaining 3 ponds (5-7) are percolation ponds. In addition the system includes open concrete channels, communitors (which grind and shred any solids) and surface aerators.

The System is operated and maintained by a privately-owned company--PERC Water Corporation (PERC)--pursuant to the Asset Management Service Agreement, dated July 1, 2009 and expiring in July 2013, which the I-Bank legal staff have determined is "qualified management contract" as defined by the Internal Revenue Service. PERC's responsibilities include the operation and maintenance of the System. PERC is also responsible for the System monitoring and reporting requirements and submits monthly reports to the City Manager for review prior to the reports being submitting to the RWQCB. Since the PERC contract is set to expire soon, the City is currently assessing qualified management contract proposals from other wastewater system operators.

System Capital Improvements. The City reports that the WWMP, completed in 2009, identified planned System capital improvements sufficient to meet anticipated System demands resulting from projected growth through 2020, and that the WWMP has been superseded by the recent Report of Waste Discharge (RWD – Sep 2012 and amended RWD – Mar 2013, collectively the RWD). The RWD is a technical source document approved by the RWQCB as a requirement for the issuance of the City's current waste discharge permit. The City reports that the RWD identifies System activities, capital improvements and operating guidelines necessary to meet future wastewater treatment and disposal requirements through 2020.

The City has confirmed that necessary System capital improvements identified in the RWD include the Project and the construction of new wastewater storage facilities and further expansion of irrigated agricultural acreage, and that it anticipates completing the capital improvements identified in the RWD in two phases, with the Project being the first phase. The City anticipates completing the second phase of System capital improvements needed to bring the System into full compliance with the RWD based upon the actual future wastewater flows from System users, including any expansions of the Prison and the ARSA. The City reports that the costs and funding plan for the second phase of System capital improvements has not yet been determined.

The number and type of current System users by category over the last five years are as follows:

NUMBER OF USERS BY CATEGORY					
For Fiscal Year Ending (FYE) June 30,	2009	2010	2011	2012	2013
Residential	1,556	1,568	1,617	1671	1,739
Commercial	96	97	97	97	97
Other	4	4	4	4	4
Total	1656	1669	1718	1772	1840
% change		0.8%	2.9%	3.1%	3.8%

Source: Financing Application

The above table reflects that the number of System users has increased by an average of approximately 2.7% per year over the past five fiscal years and over 3.3% since 2011. Completion of the Project will allow for continuing residential development, potential Prison expansion, and additional commercial development. The City's GP also includes recreational and commercial amenities within the Castle Oaks development. The City's Downtown Master Plan also calls for community revitalization in historic downtown lone.

Current System usage and revenues as of March 1, 2013 are as follows:

CURRENT SYSTEM USAGE & REVENUE				
	Annual Usage MG/YR⁽¹⁾	% Annual Usage	Gross Annual Revenue	% Gross Annual Revenue
Residential	171	85%	\$849,328	86%
Commercial	14	7%	\$62,804	6%
Other	16	8%	\$80,088	8%
Total	201	100%	\$992,220	100%

Source: Financing Application

⁽¹⁾ Million Gallons Per Year.

The above table shows the residential use has 85% of the System usage and 86% of System gross annual revenues. The revenues were compiled for the last 12 months

(March 2012 to March 2013) and do not reflect revenues from connection fees or from the COWRP (\$129,000).

Historical and current average monthly user charge of the System per residential unit are as follows:

HISTORICAL AND CURRENT AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT					
For Fiscal Year Ending (FYE) June 30,	2009	2010	2011	2012	2013
Residential Unit	\$40.70	\$40.70	\$40.70	\$40.70	\$40.70
% change		0	0	0	0

Source: Financing Application

The table above reflects that the average monthly user charge per residential unit has remained constant at \$40.70. The last rate adoption occurred in March 2004. The City believes its current rate structure is sufficient to support the Project or Phase I system improvements, but will require an increase in rates to fund Phase II projected to occur on or about 2017.

The table below compares the City current average monthly System user charge per residential unit compared to nearby systems as of March 2013.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE COMPARED TO NEARBY SYSTEMS as of: March 20, 2013		
System Name	Location	Average Monthly Residential Rate
Jackson	Jackson, CA	\$29.35
City of Ione	Ione, CA	\$40.70
Sutter Creek	Sutter Creek, CA	\$62.97
Calaveras County Water District	Calaveras County, CA	\$67.50
Amador Water Agency	Martell, CA	\$74.05

Source: Financing Application

The City's average monthly rate of \$40.70 is lower than the comparable rates in three nearby jurisdictions.

The top ten current System users are identified in the table below:

TOP 10 SYSTEM USERS as of: March 1, 2013				
	User	% System Use	% System Revenues	Customer Class (Residential/ Commercial/ Industrial/Other)
1	Amador Water Agency	9.65%	4.50%	Commercial
2	Ione Mobile Park	5.03%	2.50%	Commercial
3	Jose's Place	4.42%	2.20%	Residential
4	Mule Creek State Prison	3.62%	1.80%	Institutional
5	Le Drew Apartments	2.01%	1.00%	Multi-Family Res.
6	Amador Unified School District #235	2.01%	1.00%	Institutional
7	Amador Unified School District #236	1.01%	0.50%	Institutional
8	Apex #1690	0.80%	0.40%	Commercial
9	Portlock #932	0.60%	0.30%	Commercial
10	Gebhardt Apartments	0.60%	0.30%	Multi-Family Res.
	Total	29.75%	14.50%	

Source: Financing Application

The top ten users represent 29.75% of total System users and generate 14.50% of System revenues. These percentages comply with the I-Bank's underwriting requirements that the top ten ratepayers not exceed 50% and that no single ratepayer exceed 15% of System revenues. It is anticipated that these percentages will decrease as new residential projects continue to develop.

Security and Source of Financing Repayment

Source of Revenue to Repay Proposed ISRF Program Financing:	Sewer Fund (Fund) The Fund is made up of 3 separate funds: 1.) Sewer O&M, 2.) Sewer Capital, and 3.) Non-major Sewer Tertiary Plant.
Applicant Proposed Lien Position:	<input checked="" type="checkbox"/> Senior <input type="checkbox"/> Senior Parity <input type="checkbox"/> Subordinate <input type="checkbox"/> Subordinate Parity <input type="checkbox"/> Other:
List Debt that is Senior to Proposed ISRF Program Financing:	None
List Debt On Parity with Proposed ISRF Program Financing:	None
List Debt Subordinate to Proposed ISRF Program Financing:	None
Type of Audited Financial Documents Reviewed:	<input type="checkbox"/> Comprehensive Annual Financial Report <input checked="" type="checkbox"/> Basic Financial Statements (BFS) <input type="checkbox"/> Other:
Audit Years Reviewed:	Fiscal Year End June 30 (FY): 2010, 2011 and 2012

The auditor's reports for all years indicate that the financial statements present fairly, in all material respects, the financial position of the City, and that the results of its operations and the cash flows are in conformity with generally accepted accounting principles.	<input checked="" type="checkbox"/> Yes for FY 2010 <input checked="" type="checkbox"/> No for FY 2011 ¹ <input checked="" type="checkbox"/> Yes for FY 2012
Adopted Budget(s) Reviewed:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Budget Years Reviewed:	2012-2013
Rate Study Reviewed:	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes
Applicant's Fiscal Year:	July 1 through June 30

¹ According to the City's application, in 2011 after the departure of the City's former City Manager, the City's new executive team discovered difficulties with the City's financial reporting system. City management found that the financial reporting issues were caused by three major problems: 1) a conversion of the accounting software from one software company to another in 2008, which was not appropriately mapping the City's chart of accounts. 2) inconsistent and inaccurate tracking of payments and disbursements; and 3.) a lack of permanent City staff to manage the City's books and records. This resulted in a qualified audit of the City's 2011 financials.

On September 18, 2012, the City retained Collins Accountancy, an accounting firm that specializes in government accounting, to assist the City Finance Manager in preparing for the FY 2012 Audited Financial Statement. Collins Accountancy provided the City with two CPA's to assist with identification and correction of past errors. The CPA's and Finance Manager undertook a comprehensive review of the City's financial documents from 2000 forward to properly classify each City transaction and to ensure that each fund balance, as presented, is accurate. This review resulted in the restatement of the FY 2011, and helped achieve an unqualified Audited Financial Statement for FY 2012.

Comparative Balance Sheet Analysis

The comparative historical balance sheet analysis for the Fund for the last three fiscal years is as follows:

COMPARATIVE STATEMENT OF NET ASSETS						
For Fiscal Year Ending (FYE) June 30,	2010		2011		2012	
Source:	BFS	%	BFS	%	BFS	%
Current assets						
Cash and investments	\$976,078	10%	\$1,152,324	11%	\$1,004,244	9%
Accounts Receivable	\$404,378	4%	\$168,496	2%	\$128,862	1%
Due from others			\$297,070		\$297,070	3%
Restricted cash and investments	(\$525,709)	-5%	(\$549,939)	-5%		0%
Total current assets	\$854,747	9%	\$1,067,951	11%	\$1,430,176	13%
Non Current Assets						
Advances to other funds	\$244,800	3%	\$244,800	2%	\$244,800	2%
Capital Assets						
Land	\$3,873,444	40%	\$3,873,444	39%	\$3,873,444	36%
Construction in progress	\$1,212,667	12%	\$1,467,393	15%	\$1,836,491	17%
Structures	\$1,460,112	15%	\$1,460,112	15%	\$1,460,112	14%
Site improvements	\$446,396	5%	\$446,396	4%	\$446,396	4%
Vehicles and equipment	\$489,206	5%	\$489,206	5%	\$489,206	5%
Infrastructure	\$3,924,917	40%	\$3,924,917	39%	\$4,025,063	38%
Accumulated Depreciation	(\$2,714,891)	-28%	(\$2,932,490)	-29%	(\$3,130,022)	-29%
Total Non Current & capital assets	\$8,691,851	89%	\$8,728,978	87%	\$9,000,690	84%
Total Assets	\$9,791,398	100%	\$10,041,729	100%	\$10,675,666	100%
Liabilities						
Current liabilities						
Accounts payable	\$57,823	1%	\$57,400	1%	\$65,436	1%
Accrued payroll	\$35,876	0%	\$7,277		\$7,251	
Customer deposits	\$2,068	0%	\$2,434	0%	\$3,297	0%
Total current liabilities	\$95,767	1%	\$67,111	1%	\$75,984	1%
Noncurrent liabilities						
OPEB-retiree health			\$15,618		\$26,315	
Termination benefits-PARS					\$10,146	
Compensated absences	\$11,903	0%	\$24,803	0%	\$7,799	0%
Total noncurrent liabilities	\$11,903	0%	\$40,421	0%	\$44,260	0%
Total Liabilities	\$107,670	1%	\$107,532	1%	\$120,244	1%
Net Assets						
Invested in Capital Assets, Net of Related Debt	\$8,691,850	89%	\$8,728,978	87%	\$9,000,690	84%
Restricted for capital replacement	(\$204,671)	-2%	(\$223,048)	-2%	\$46,041	0%
Unreserved	\$1,196,549	12%	\$1,428,267	14%	\$1,508,691	14%
Total Net Assets	\$9,683,728	99%	\$9,934,197	99%	\$10,555,422	99%
Total Liabilities and Net Assets	\$9,791,398	100%	\$10,041,729	100%	\$10,675,666	100%
Total Liabilities to Total Assets	1.10%		1.07%		1.13%	
Total Fund Balance to Total Liabilities	8994%		9238%		8778%	
Current Ratio	893%		1591%		1882%	

Over the three years reviewed, Fund Total Assets increased in excess of \$800,000 or 9%, which growth was financed mostly by the retention of Operating Income (offset by FY 2010 operating loss). The Cash and investments account has been averaging around \$1,000,000 for the same period. The Comparative Statement of Net Assets for FY's 2010 and 2011, showed the combined Cash and Investment account that included Restricted (with maturities within a year) amount of \$525,709 and \$549,939 respectively. The \$297,070 Due from Others represents a settlement with a developer for connection fees owed to the City identified during the review by the City contracted CPA's. The developer has agreed to make 12 equal installments to begin June 1, 2013.

The Non Current Assets continue to increase as the City continues to improve and expand the System. As of June 30, 2013, the System does not have any long term liability. As in the case of Restricted Cash and Investments, the prior City administration showed the Restricted for Capital Replacement as negative to be deducted against the Unreserved account in the Net Asset section.

The Current Ratio was 893% at FY 2010, improving to 1,882% at FY 2012, indicating a healthy and stable working capital position. Total Liabilities to Total Assets ratio is a healthy 1.13% as of FY 2012.

ACCOUNTS RECEIVABLE AGING							
as of: March 31, 2013							
	Current	Over 30	Over 40	Over 60	Over 90	Over 120	Total
	\$68,779	\$17,133	\$6,596	\$2,038	\$4,371	\$20,409	\$119,326.00
Percent	57.6%	14.4%	5.5%	1.7%	3.7%	17.1%	100.0%

Source: Financing Application

The above table reflects that the City collects 79.2% of its receivables within 60 days. Customers are billed monthly. The "over 90-120" is a function of the City's current collection procedure, which involves rolling outstanding payments to property tax rolls paid once per year, at which time the City collects most, if not all, the outstanding receivables. The City currently works with ratepayers that are behind in payments to place them on a payment plan contract to assist with minimizing delinquencies. However, any ratepayer behind in their payments that violates the payment plan contract or refuses to do a payment plan contract will be forced to pay their outstanding balance plus penalties and interest when paying their property taxes.

Comparative Revenues and Expenses Analysis

The comparative historical revenues and expenses for the Fund and changes in Fund Balance for the last three fiscal years are summarized below:

COMPARATIVE STATEMENT of REVENUES, EXPENSES, and CHANGES IN NET ASSETS							
For Fiscal Year Ending (FYE) June 30,		2010		2011		2012	
	Source:	BFS	%	BFS	%	BFS	%
	% Change			3%		3%	
Operating Revenues							
	Charges for services	\$991,844	96%	\$1,018,435	82%	\$1,047,334	66.5%
	Connection Fees	\$45,840	4%	\$239,529	19%	\$526,974	33.5%
	Other	(\$5,772)	-1%	\$159	0%		
	Total Operating Revenues	\$1,031,912	100%	\$1,258,123	102%	\$1,574,308	100.0%
Operating Expenses							
	Salaries and benefits	\$178,210	17%	\$179,142	14%	\$151,296	9.6%
	Services and supplies	\$701,072	68%	\$685,787	55%	\$626,001	39.8%
	Depreciation expense	\$229,167	22%	\$217,599	18%	\$197,532	12.5%
	Total Operating Expenses	\$1,108,449	107%	\$1,082,528	87%	\$974,829	61.9%
	Operating Income (Loss)	(\$76,537)	-7%	\$175,595	14%	\$599,479	38.1%
Nonoperating Revenues (Expenses)							
	Interest Income	\$48,582		\$15,414		\$21,746	
	Total Non Operating Revenues/Expenses	\$48,582		\$15,414		\$21,746	
	Income (Loss) Before Transfers	(\$27,955)		\$191,009		\$621,225	
Operating Transfers							
	Operating transfers in	\$422,528		\$257,892		\$728,807	
	Operating transfers out	(\$422,528)		(\$257,892)		(\$728,807)	
	Net Operating Transfers	\$0		\$0		\$0	
	Net Income (Loss)	(\$27,955)		\$191,009		\$621,225	
	Beginning Net Assets	\$8,810,227		\$9,683,728		\$9,934,197	
	Prior Period Adjustment (=/-)	\$901,456		\$59,460			
	Ending Net Assets	\$9,683,728		\$9,934,197		\$10,555,422	

The Comparative Statement of Revenues and Expenses shows a marked upward trend in revenues since FY 2010, resulting from the increasing number of connections due to the continuing housing development. The increase in revenues coupled with the improvement (decrease) in expenses contributed to record operating profit for FY 2012. Improvements in expenses were due to the tighter cost control implemented by the City.

The Operating Transfers reflect the elimination of charges among two of the three funds that comprise the Sewer Fund. FY 2010 Prior Period Adjustments were mostly for capital additions, Depreciation and Accounts Receivables. Prior Period Adjustment for FY 2011 was mostly Construction in Progress and Depreciation Expense.

Budget

A review of the 2012-2013 Adopted Budget indicates that Total Revenues and Total Expenses are consistent with historical actual totals.

Cash Flow and Debt Service Analysis

The Fund does not have any outstanding debt as of 4/30/2013.

OBLIGATIONS							
Original Financing Amount	Origination Date	Issuer/ Lender	Maturity	Interest Rate %	MADS ⁽¹⁾⁽²⁾	Balance as of 2013	Lien Position/ Repayment Pledge
\$3,250,000	2013	Proposed I-Bank Loan	2042	2.32	\$164,037	\$0	Senior lien on net System revenues and the Fund
Total Senior Debt					\$164,037		

⁽¹⁾ Maximum Annual Debt Service

⁽²⁾ Proposed MADS calculated as \$3,250,000 @ 2.32% for 30 years

Historical cash flow and debt service analysis for the proposed financing is presented below:

CASH FLOW				
For Fiscal Year Ending (FYE) June 30,		2010	2011	2012
Operating Income (Loss)		(\$76,537)	\$175,595	\$599,479
+ Depreciation and Amortization		\$229,167	\$217,559	\$197,532
+ Investment Earnings/Income		\$48,582	\$15,414	\$21,746
Cash Available for Debt Service with Connection Fees		\$201,212	\$408,568	\$818,757
- Connection Fees		(\$45,840)	(\$239,529)	(\$526,974)
Cash Available for Debt Service w/o Connection Fees		\$155,372	\$169,039	\$291,783
Debt Service Calculation				
Senior Debt Service @ MADS ⁽¹⁾				
Proposed CIEDB ⁽²⁾		\$164,037	\$164,037	\$164,037
Total Senior MADS		\$164,037	\$164,037	\$164,037
Senior Debt Service Coverage Ratio w Connection Fees		1.23	2.49	4.99
Senior Debt Service Coverage Ratio w/o Connection Fees		0.95	1.03	1.78
⁽¹⁾ Maximum Annual Debt Service				
⁽²⁾ Calculated as \$3,250,000 @ 2.32% for 30 years				

Historical cash flows over the last three years demonstrate repayment ability to service the proposed ISRF Program financing.

Compliance with I-Bank Underwriting Criteria

- I-Bank financing is proposed to be a senior lien on System net revenues and the Fund. Historical cash flow exceeds the minimum 1.10 times debt coverage ratio with connection fees and exceeds 1.0 times debt coverage without connection fees.
- Revenues derived from the top ten System ratepayers do not exceed 50% of annual System revenues.
- Revenues derived from any single ratepayer do not exceed 15% of the System revenues.
- The City has the power to establish and enact rates and charges without the approval of any other governing body.
- The City has an adopted mandatory hook-up ordinance in place.

LITIGATION, MANAGEMENT AND ENVIRONMENTAL

Litigation

The City's application indicates that there is no current or anticipated litigation or material controversy that would materially affect its ability to construct the Project or repay the proposed ISRF Program financing.

Project Construction and Management Ability

The City's administrative staff, including its City Manager and City Engineer, has over 39 years of combined experience in successfully managing wastewater public agencies. Both have the technical background and experience to undertake capital improvement projects.

Ed Pattison, City Manager, joined the City in July 2012. Mr. Pattison has over 21 years of progressively responsible experience as administrator for several public agencies and working as a consultant on water and wastewater related jobs.

Among his significant previous positions, he served as Water Resources Manager for Calaveras County Water District where he worked closely with the Engineering Department on planning, design, and construction of critical water and wastewater projects. He was also Water Operation Specialist for the City & County of San Francisco, Hetch Hetchy Water and Power and Water Resources Specialist for the Modesto Irrigation District. He was also the Director-Water Resources for MFG Consulting and Engineers and Water Quality Specialist for Jones & Stokes, Inc. He holds a Master of Public Administration from California State University, Stanislaus; and Bachelor of Science, Soils & Water Science/Policy analysis from University of California, Davis.

John Griffin, Coastland Company Senior Engineer, a civil engineering company, serves in various capacities on day-to-day engineering services for the City. Mr. Griffin has over 18 years of civil environmental engineering experience and his responsibilities

have comprised planning, permitting, engineering design, project management and construction management for a broad range of projects, including water, wastewater, transportation and drainage facilities.

Among his significant previous positions, Mr. Griffin served as a Supervising Engineer at the Amador Water Agency, Senior Civil Engineer for the City of Galt and an Environmental Engineer at Tetra Tech EM Inc. John holds a Bachelor of Science from California State University, Sacramento.

John Wanger, principal at Coastland and Supervising Engineer, has over 32 years of engineering experience serving the public sector. His experience includes overseeing engineering services for 17 municipalities. He has managed and overseen over \$75 million in capital projects including water and wastewater systems.

Also included in the Project team are Mary Grace Pawson, GHD Engineering Co, Senior Project Manager and Steve Deverel, Consulting Hydrologist.

California Environmental Quality Act (CEQA)

The CEQA process for the Project is as follows:

Project Component	Level Of Required Environmental Clearance	Status Of CEQA Compliance	Filed NOD Received ⁽¹⁾
Wastewater Compliance Project for City of Lone Wastewater Treatment Plant Upgrade.	<input type="checkbox"/> Notice of Exemption <input checked="" type="checkbox"/> Negative Declaration <input type="checkbox"/> Mitigated Neg. Dec. <input type="checkbox"/> Environmental Impact Report (EIR)	<input type="checkbox"/> In Progress Expected date: _____ <input checked="" type="checkbox"/> Adopted/Approved on 2/26/2013	<input checked="" type="checkbox"/> Yes Filed with County Recorder on: 02/27/2013 <input type="checkbox"/> No Required Prior to First Disbursement

⁽¹⁾ NOD means Notice of Determination.

The City filed a Notice of Determination for the Project with the Amador County Recorder on February 27, 2013.

SCORING CRITERIA FOR PRIORITIZING PROJECTS

POINT CATEGORY	ANALYSIS	MAX PTS	PTS
Project Impact			
Job Creation/Retention	The City application indicates it anticipates future growth, including the completion of an additional 375 dwelling units within the next 3-5 years which, according to information provided by the City, the National Association of Home Builders, equates to 3.05 permanent retail jobs per a single family, totaling approximately 1,145 permanent retail jobs. Since written confirmation of the number of jobs to be created was not provided, no points were given in this category.	30	0
Economic Base Employers	Not applicable.	10	0
Community Employment Development Plan	Not applicable.	10	0
Quality of Life/Community Amenities	The City anticipates that the proposed Project will resolve Cease and Desist Order and will contribute to public health and safety in the City. The Project provides critical additional disposal capacity which will preserve the existing quality of life and the attractiveness of the City. The Project provides support for ongoing development identified in the GP, which will include recreational and commercial amenities within the Castle Oaks development. The Project also provides an ongoing availability of sewer service, which supports community revitalization in historic downtown lone consistent with the City's recently adopted Downtown Master Plan. The Project's water recycling component supports an active partnership between the City and the City's surrounding agricultural land uses. By securing disposal capacity, the Project also supports the employment base at the Prison, contributing to high quality jobs in the community.	30	30
Community Economic Need			
Unemployment Rate	The City's 2012 unemployment rate was 10.7%, which was 91.45% of the State's rate of 11.7%.	20	0
Median Family Income	According to the 2010 Census, the City's 2010 median family income was \$76,124, which was 109.81% of the State's median family income of \$69,322.	15	0
Change in Labor Force Employment	There was a decline in labor force employment in 2012 when compared with 2011.	10	10
Poverty Rate	According to the 2000 Census, the City's 2010 poverty rate was 6.6%, which was 48.18% of the State's poverty rate of 13.7%.	10	0
Land Use, Environmental Protection and Approved Housing Element			
Land Use	The Project will renew and maintain existing urban areas.	20	20
Environmental Protection	The Project will resolve a long-standing groundwater degradation problem and will eliminate the Cease and Desist Orders issued by the Central Valley Regional	10	10

	Water Quality Control Board.		
Housing Element	The City has an approved Department of Housing and Community Development General Plan Housing Element.	10	10
Leverage			
Leverage	The District will contribute \$750,000 to the Project. I-Bank Financing is \$3,250,000, for a leverage ratio of .23/1	15	3
Readiness			
Readiness	Construction is projected to start in June 2013, which is within two months from the Board date.	10	10
TOTAL		200	93

STAFF RECOMMENDATIONS

Staff recommends approval of Resolution No. 13-05 authorizing financing to the City of Lone for the Project as follows:

1. **Applicant/Borrower:** City of Lone.
2. **Project:** City Wastewater Compliance Project
3. **Amount of Financing:** Not to exceed \$3,250,000.
4. **Maturity:** Not to exceed 30 years.
5. **Funding Availability:** ISRF Program financing commitment is subject to the availability of funds from either, or a combination of, proceeds of a revenue bond or I-Bank equity funds. The Borrower shall execute the ISRF Program financing agreement within 210 days of I-Bank Board Approval date, or the commitment of funds may be cancelled by the I-Bank.
6. **Repayment/Security:** Senior lien on the Net System Revenues and the Sewer Fund.
7. **Interest Rate:** 67% of Thompson's Municipal Market Data Index for an "A" rated tax-exempt security with a weighted average life similar to the I-Bank financing based on the rates on May 1, 2013.
8. **Fees:** Financing origination fee of 0.85% of the I-Bank financing and an annual fee of 0.30% of the outstanding principal balance.
9. **Type of Financing Agreement:** Installment Sale Agreement.
10. **Financing Agreement Covenants:** The Installment Sale Agreement shall include, among other things, the following covenants:
 - a. Rates and charges shall be maintained sufficient to ensure 1.10 times aggregate annual debt service ratio for parity obligations.
 - b. Net System revenues may not be pledged to secure future financings on a basis senior to the pledge provided to secure the ISRF Program Financing.
 - c. Net System Revenues may be pledged to secure future financings on a parity basis with the ISRF Program financing if net revenues (adjusted for rate increases and system expansion) will provide future aggregate debt service coverage of 1.10 times maximum annual debt service on all parity debt, inclusive of the proposed financing. Borrower shall be authorized to prepay all or a portion of the outstanding principal balance according to the following: 102% of the outstanding principal balance if the prepayment date is on or after ten years, but less than eleven years, from the effective date of the Agreement, or 100% of the outstanding principal amount of the I-Bank bonds to which the Borrower's loan is pledged to repay and scheduled to be called for redemption as a result of the prepayment plus accrued interest on the bonds to be redeemed as of the date scheduled for redemption (Redemption Amount), whichever is greater; 101% of the outstanding principal balance if the prepayment date is on or after eleven years, but less than twelve years, from the effective date of the Agreement or the Redemption Amount, whichever is greater; or without premium if the prepayment date is twelve years or more from the effective date of the Agreement or the Redemption Amount, whichever

is greater. The Borrower may on any date provide for a legal defeasance of the principal amount outstanding and any additional payment then due.

- d. An agreement to indemnify I-Bank and its directors, officers and employees from any liability arising from the Installment Sale Agreement or from construction or operation of the Project.
- e. Until otherwise notified by the I-Bank in writing, the City shall obtain I-Bank written approval of any extension, renewal or new operations and maintenance agreement for the City's wastewater treatment facilities (including the Castle Oaks Water Reclamation Plant) commencing after July 2013. Any such agreement entered into by the City shall meet tax-exempt financing qualified management contract requirements.

11. Conditions Precedent to Agreement Execution:

- a. Adopted Borrower resolution authorizing the execution and delivery of the Installment Sale Agreement and approving certain other matters in connection therewith.
- b. Receipt of an opinion of legal counsel to the Borrower that the Borrower has the legal authority to enter into the Installment Sale Agreement, that there is no litigation currently pending or threatened that would in any way affect pledged revenues, that the Installment Sales Agreement is a legal, binding and enforceable agreement of the Borrower, and that the Borrower is not in default of any agreement or obligation secured by the revenues of the water system.
- c. Executed Tax Certificate.

12. Conditions Precedent to Initial Disbursement: The following are some of the conditions, which will be required precedent to the initial disbursement of I-Bank funds:

- a. Execution of an Installment Sale Agreement consistent with the terms contained herein.

13. Conditions Precedent to Construction Disbursement for each Project Phase.

- a. Certificate of the Borrower, the Borrower's legal counsel or other individual acceptable to the I-Bank that the Borrower:
 - i. Has obtained any and all lands, rights-of-ways, lot line adjustments, easements, and orders of possession, which are required for construction.
 - ii. All required construction permits have been obtained.
- b. For each construction contract:
 - i. A written statement by the Borrower, the Borrower's legal counsel or other individual acceptable to the I-Bank that:
 - 1. All construction contracts necessary for the construction of the Project have been awarded pursuant to applicable competitive bidding requirements and the Borrower's procedures normally required for similar construction projects.
 - 2. Project costs for the applicable Project component are consistent with the Sources and Uses listed in this staff report.
 - 3. Appropriate builder's risk insurance has been obtained and the policy names the Borrower as additional insured and loss payee, and contractor has acquired and shall be required to maintain liability insurance and name the Borrower as an additional insured, and

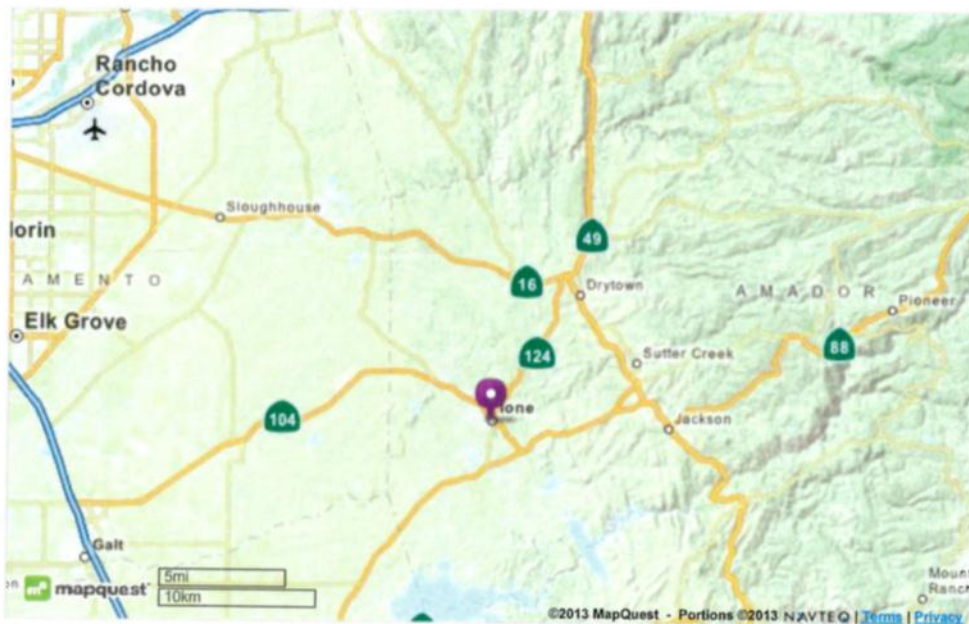
contractor shall be required to obtain performance and payment bond provisions and name the Borrower as additional payee.

4. All construction contracts require payment of prevailing wage rates and compliance with Chapter 1 (commencing with Section 1720) of Part 7 of Division 2 of the California Labor Code.
 5. All construction contracts require payment of workers' compensation insurance.
 6. All construction contracts include applicable nondiscrimination provisions.
 7. The Borrower has utilized the contractor pre-qualification forms developed by the Department of Industrial Relations as set forth in AB 574 (972 of the statutes of 1999) codified in Public Contract Code Section 20101 et seq.
- ii. Submittal of a copy of the complete construction contract.
 - iii. Submittal of a copy of the builder's risk insurance policy, and a copy of the contractor's payment and performance bonds.
14. **Conditions Precedent to Final Disbursement:** The following are some of the conditions precedent to final disbursement of I-Bank funds:
- a. Recorded Notice of Completion or other evidence of completion for each Project component.
 - b. Lien waivers for the Project, or passage of the applicable statutory time periods for filing mechanics and other similar liens.
 - c. Certification that the Project has been completed in accordance with the approved plans and specifications, and that the completed Project is consistent with the definition of Project in this staff report and is acceptable to the Borrower.
 - d. Certification that the Borrower has obtained all licenses and permits (including operating permits), and approvals from any governmental agency or authority having jurisdiction over the Borrower in connection with the Project.
15. **Financial and Other Reporting Requirements:**
- a. Annual Borrower audited financial statements, due to the I-Bank within 210 days of fiscal year end.
 - b. Other information as the I-Bank may request from time to time.
 - c. Until otherwise notified by the I-Bank in writing, the Borrower shall annually certify that it has submitted and received written confirmation from the I-Bank for any operations and maintenance contracts for the Borrower's wastewater treatment facilities, including the Castle Oaks Water Reclamation Plant.

EXHIBIT 1—City and Project Location Maps



Map of:
lone, CA



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EXHIBIT 2—RWQCB Letter of Support



Central Valley Regional Water Quality Control Board

18 January 2013

Edwin Pattison, City Manager
City of Ione
P.O. Box 398
Ione, CA 95640

CONSTRUCTION OF WASTEWATER TREATMENT FACILITY IMPROVEMENTS AND WATER RECYCLING AREAS, CITY OF IONE, AMADOR COUNTY

Dear Mr. Pattison,

Thank you for working with my staff to support development of revised Waste Discharge Requirements (WDRs) for Ione's wastewater treatment facility. The planned improvements to the wastewater treatment facility and the addition of new water recycling areas are an essential step forward in the City's efforts to comply with Cease and Desist Order R5-2011-0019 by reducing groundwater degradation due to iron and manganese. Although the planned improvements may not represent a complete and final solution to the groundwater problem, I am confident that the City remains committed to taking whatever additional steps are needed, as indicated in your Report of Waste Discharge.

We understand that the City of Ione has applied to I Bank for funding assistance for the improvements project. As noted above, the project is an important one and we hope that your funding efforts will be successful.

My staff and I look forward to working with you to facilitate planned improvements protective of groundwater quality, and we expect to propose revised WDRs for the wastewater treatment facility at the Central Valley Water Board's 11/12 April 2013 meeting. Tentative WDRs should be issued for public review in the next week or so. If you have any questions regarding this letter, please contact me at (916) 464-4839. Questions regarding the permitting process may be directed to Anne Olson at (916) 464-4740.

Sincerely,

Original signed by

Pamela C. Creedon
Executive Officer

cc: Mary Grace Pawson, GHD Engineering, Santa Rosa

KARL E. LONGLEY ScD, P.E., CHAIR | PAMELA C. CREEDON P.E., BCEE, EXECUTIVE OFFICER
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